

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT	County ALGER
Audit Date 6/30/04	Opinion Date 9/22/04	Date Accountant Report Submitted to State: 11/8/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MAKELA, TOUTANT, HILL, & NARDI, PC			
Street Address 201 W. BLUFF STREET		City MARQUETTE	State MI
Accountant Signature 		ZIP 49855	Date 11/8/04

Audited Basic Financial Statements
Required Supplementary Information
And Other Financial Information

**AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT
DEERTON, MICHIGAN**

June 30, 2004

Audited Basic Financial Statements
Required Supplementary Information
and Other Financial Information

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

June 30, 2004

Audited Financial Statements

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

Year Ended June 30, 2004

AuTrain-Onota Public School is a public school district located in Alger County, Michigan. AuTrain-Onota Public School is in its first year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be a discussion and analysis of the financial activities for the fiscal year ended June 30, 2004. It should be read in conjunction with the enclosed financial statements.

Accounting principles generally accepted in the United States of America through GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

District-Wide Financial Statements

The District-Wide Financial Statements report information about the School District as a whole using the accrual basis accounting methods, which are similar to those used by private-sector companies. The two required district-wide financial statements are the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the School District's assets and liabilities. The Statement of Activities includes all of the current year's revenues and expenditures that are accounted for regardless of when cash is received or paid.

Net Assets, the difference between the School District's assets and liabilities, are one way to measure a district's financial health or position.

- Over time, increases or decreases in a district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. The relationship between revenues and expenditures are the School District's operating results. However, the School District's goal is to provide services to the students, not to generate profits as private-sector companies do.
- To assess the district's overall health, one needs to consider additional non-financial factors such as the quality of education provided, the safety of the schools, and the condition of school buildings and other facilities.

The Statement of Activities reports the governmental activities for the school district.

- All of the School District's basic services are included here, such as instruction, supporting services, community services and food service. Property taxes and state and federal funding finance most of these activities.

Fund Financial Statements

Fund Financial Statements are reported on a modified accrual basis, which measures cash and all other financial assets that are "measurable" and "currently available." Liabilities are recognized to the extent that they are expected to be paid with current financial resources.

The Fund Financial Statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the following fund types and related activities are defined as followed:

Governmental Fund Types

All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the remaining balances at year-end. The governmental fund statements provide a short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps financial statement users determine whether there are more or fewer financial resources available in the near future to finance the School District's programs.

General Fund: The General Fund is the general operating fund and, accordingly, it is used to account for resources devoted to financing the general services of the School District except those accounted for in another fund.

Special Revenue Fund: The Food Service Fund is a special revenue fund and, accordingly, it is used to account for resources devoted to financing the food services program.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Assets (District-Wide Financial Statement)

The condensed Statement of Net Assets as of June 30, 2004, is as follows:

Current Assets		
Noncurrent Assets		\$ 231,371
		<u>221,737</u>
	Total Assets	453,108
Current Liabilities		77,235
Long Term Liabilities		<u>32,194</u>
	Total Liabilities	109,429
Investment in Capital Assets, Net of Related Debt		182,164
Unrestricted		<u>161,515</u>
	Total Net Assets	<u>\$ 343,679</u>

Statement of Activities (District-Wide Financial Statement)

The condensed Statement of Activities for the fiscal year ended June 30, 2004, is as follows:

Program Revenues:		
Charges for Services		\$ 9,752
Operating Grants and Contributions		93,972
General Revenues:		
Local Revenue, unrestricted		37,683
Property Tax Revenue, unrestricted		449,309
Proceeds from borrowing		53,600
Interest and investment earnings		<u>1,756</u>
Total Revenues		646,072
Program Expenses:		
Instruction and instructional support		293,378
Support Services		290,799
Food Services		27,836
Community service direction		7,180
Interest on long-term debt		179
Depreciation unallocated		<u>7,133</u>
Total Expenses		626,505
Change in Net Assets		19,567
Net Assets at Beginning of Year, as restated		<u>324,112</u>
Net Assets at End of Year		<u>\$ 343,679</u>

During the fiscal year ended June 30, 2004, the School District's net assets increased \$19,567 or 6%.

Since prior year data on governmental activities is not available, an analysis on the School District's overall financial position and results of operations using the condensed financial statements is not provided. A comparative analysis will be provided in future years when the information is available.

Fund Balances (Fund Financial Statements)

The table below details the School District's governmental fund balances.

	June 30 2004	June 30 2003	Increase (Decrease)
General Fund	\$ 167,379	\$ 185,033	\$ (17,654)
Food Service Fund	19	0	19
	<u>\$ 167,398</u>	<u>\$ 185,033</u>	<u>\$ (17,635)</u>

The General Fund decreased \$17,654 due primarily to the purchase of a new school bus.

Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The School District levied 18 mills of non-homestead property taxes for General Fund operations. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable value increase for property is capped at the rate of the prior year's CPI increase, or five percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which approximates, 50 percent of the market value.

The School District's tax revenue for the 2003-2004 fiscal year was \$449,309.

Budget and Actual Revenues and Expenditures (Required Supplementary Information)

Over the course of the fiscal year, the School District's Board of Education revises its budget as it attempts to deal with changes in revenues and expenditures. As a matter of practice, the AuTrain-Onota Public School District amends its budget on a monthly basis, as needed, to account for state and federal grants and other funding. The June 2004 budget amendment was the final amendment for the fiscal year.

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The School District does not include any state or federal revenue in the original budget that is not confirmed as of the budget approval date in June of each year.

A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of the financial statements.

Revenue -- Budget vs. Actual for the year ended June 30, 2004

	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Final & Original Budget	Revenues Variance Actual & Final Budget
General Fund	\$ 473,788	\$ 575,384	\$ 575,179	\$ 101,596	\$ (205)
Food Service	\$ 15,700	\$ 17,627	\$ 17,293	\$ 1,927	\$ (334)

Expenditures -- Budget vs. Actual for the year ended June 30, 2004

	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Final & Original Budget	Expenditures Variance Actual & Final Budget
General Fund	\$ 538,347	\$ 578,971	\$ 635,871	\$ 40,624	\$ 56,900
Food Service	\$ 28,850	\$ 28,189	\$ 27,836	\$ (661)	\$ 353

The School District's actual expenditures differed from the final budget as follows:

- General Fund by \$ 56,900 or 9.8% greater than the final budget.
- Special Revenue Fund-Food Service by \$353 or 1.3% greater than the final budget.

The significant increase in actual expenditures for the General Fund is attributed to the purchase of a new school bus.

Original vs. Final Budget

REVENUES

The School District's final budgeted revenues differed from the original budget as follows:

- General Fund by \$101,596 or 21.4% greater than the original budget.
- Special Revenue Fund-Food Service by \$1,927 or 12.3% greater than the original budget.

The significant increase in revenue for the General Fund can be attributed mainly to Grants. As stated above, grants are recognized on the financial statements once the School District receives formal notice of the award and approval from the grantor. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. The small increase in the Special Revenue Fund-Food Service can be attributed mainly to food sales and state and federal funding.

EXPENDITURES

The School District's final budgeted expenditures in the:

- General Fund were \$40,624 or 7.5% greater than the original budget.
- Special Revenue Fund-Food Service were \$(661) or 2.3% less than the original budget.

The significant increase in expenditures for the General Fund can also be attributed mainly to Grants. As state above, grants are recognized on financial statements once the School District receives formal notice of the award and approval from the grantor. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. The small decrease in expenditures for the Special Revenue Fund-Food Service can be attributed to reduced food and equipment repair costs.

Long-Term Debt

The School District's long-term debt increased \$39,775 from \$5,121 to \$44,896 as detailed in the Notes to Financial Statements, Note G--Long-Term Debt.

Capital Assets

AuTrain-Onota Public School District's net investment in capital increased by \$52,235 as a result of purchasing a new school bus for the district. The School District has a total of \$221,737 invested in capital assets including land, buildings, and buses. A detail of the net investment in capital assets is presented in the Notes to Financial Statements, Note C--Capital Assets.

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital Assets	\$ 437,644	\$ 53,600	\$ (1,365)	\$ 498,879
Less: Accumulated Depreciation	(251,744)	(16,398)	0	(268,142)
Net Investment in Capital Assets	<u>\$ 185,900</u>	<u>\$ 37,202</u>	<u>\$ (1,365)</u>	<u>\$ 221,737</u>

Currently Known Facts That May Have a Significant Impact on the School District's Future

AuTrain-Onota Public School District is funded almost entirely by non-homestead property tax revenues. The School District is considered out-of-formula and does not receive any per pupil foundation revenue from the State of Michigan. As a result, the operating revenues and expenses are not directly related to the student enrollment counts in September and February of each fiscal year.

The School District is aware that the State of Michigan is currently experiencing significant financial difficulties. The School District does rely on State grant funding and will be impacted by the State's economic hardship. The exact impact is unknown at the writing of this report.

Currently there are no approved, planned, or unreported capital projects, commercial development; residential development; litigation; or approved debt that will have a material impact on School District operations.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the School District's finances. If you have questions about this report or need additional information, contact the Business and Finance Office, of AuTrain-Onota Public School District at:

P.O. Box 105
N8790 Deerton Road
Deerton, MI 49822
(906) 343-6632



MAKELA, TOUTANT, HILL & NARDI, P.C.
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REPORT OF INDEPENDENT AUDITORS

Board of Education
AuTrain-Onota Public School District
Deerton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of AuTrain-Onota Public School District, (District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the AuTrain-Onota Public School District, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the School District has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 27 and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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Board of Education
AuTrain-Onota Public School District

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise AuTrain-Onota Public School District's basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Makela, Tattant, Hill & Naudi, P.C.

September 22, 2004

STATEMENT OF NET ASSETS

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

June 30, 2004

	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 216,841
Receivables:	
Due from other governmental units	12,778
Other	1,060
Inventory	692
TOTAL CURRENT ASSETS	<u>231,371</u>
NONCURRENT ASSETS	
Capital assets	489,879
Less: accumulated depreciation	<u>(268,142)</u>
TOTAL NONCURRENT ASSETS	<u>221,737</u>
TOTAL ASSETS	<u>453,108</u>
CURRENT LIABILITIES	
Accounts payable	\$ 17,360
Employee compensation and related liabilities	39,545
Current portion of long-term liabilities	12,702
Accrued interest	560
Deferred revenue	7,068
TOTAL CURRENT LIABILITIES	<u>77,235</u>
LONG-TERM LIABILITIES	
Compensated absences	5,323
Installment loan payable	26,871
TOTAL LONG TERM LIABILITIES	<u>32,194</u>
TOTAL LIABILITIES	<u>109,429</u>
NET ASSETS	
Invested in capital assets, net of related debt	182,164
Unrestricted	161,515
TOTAL NET ASSETS	<u><u>\$ 343,679</u></u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

Year Ended June 30, 2004

		Program Revenues		Governmental
				Activities
	Expenses	Charges for	Operating	Net (Expense)
		Services	Grants and	Revenue and
			Contributions	Changes in
				Net Assets
FUNCTIONS/PROGRAMS:				
Governmental Activities:				
Instruction and instructional support	\$ 293,378	\$ 5,739	\$ 74,330	\$ (213,309)
Support services	290,799		3,431	(287,368)
Food services	27,836	4,013	13,280	(10,543)
Community service direction	7,180		2,931	(4,249)
Interest on long-term debt	179			(179)
Depreciation unallocated	7,133			(7,133)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 626,505</u>	<u>\$ 9,752</u>	<u>\$ 93,972</u>	(522,781)
GENERAL REVENUES:				
Local revenue, unrestricted				37,683
Tax revenue, unrestricted				449,309
Proceeds from borrowing				53,600
Interest and investment earnings				<u>1,756</u>
TOTAL GENERAL REVENUES				<u>542,348</u>
CHANGE IN NET ASSETS				19,567
Net assets at beginning of year (as restated)				<u>324,112</u>
NET ASSETS AT END OF YEAR				<u>\$ 343,679</u>

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUNDS

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

June 30, 2004

	General Fund	Special Revenue Food Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 194,733	\$ 22,108	\$ 216,841
Due from other governments	12,677	101	12,778
Other receivables	1,060		1,060
Inventory		692	692
Due from other funds	22,181		22,181
TOTAL ASSETS	\$ 230,651	\$ 22,901	\$ 253,552
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 17,360		\$ 17,360
Accrued salaries and withholdings	39,536	\$ 9	39,545
Due from other funds		22,181	22,181
Deferred revenue	6,376	692	7,068
TOTAL LIABILITIES	63,272	22,882	86,154
FUND BALANCES			
Undesignated, reported in:			
General Fund	167,379		167,379
Special Revenue Fund		19	19
TOTAL FUND BALANCES	167,379	19	167,398
TOTAL LIABILITIES AND FUND BALANCES	\$ 230,651	\$ 22,901	\$ 253,552

See notes to financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

June 30, 2004

Total governmental fund balance	\$ 167,398
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in
governmental funds. Capital assets at year end consist of:

Cost of capital assets	\$ 489,879	
Accumulated depreciation	<u>(268,142)</u>	
		221,737

Long term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in governmental funds.

Long-term liabilities at year end consist of:

Compensated absences	(5,323)	
Installment loans payable	(39,573)	
Accrued interest	<u>(560)</u>	
		<u>(45,456)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 343,679</u>
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See notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--
GOVERNMENTAL FUNDS

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

Year Ended June 30, 2004

	General Fund	Special Revenue Food Service Fund	Total Governmental Funds
REVENUES			
Local sources	\$ 496,178	\$ 4,013	\$ 500,191
State sources	37,215	1,860	39,075
Federal sources	38,458	11,420	49,878
Interest on investments	1,756		1,756
Miscellaneous	1,572		1,572
TOTAL REVENUES	575,179	17,293	592,472
EXPENDITURES			
Current:			
Instruction and instructional support services	293,378		293,378
Supporting services	267,507		267,507
Community services	7,180		7,180
Food service		27,836	27,836
Debt service:			
Principle	14,027		14,027
Interest	179		179
Capital outlay	53,600		53,600
TOTAL EXPENDITURES	635,871	27,836	663,707
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(60,692)	(10,543)	(71,235)
OTHER FINANCING SOURCES (USES)			
Proceeds from borrowing	53,600		53,600
Operating transfers in		10,562	10,562
Operating transfers out	(10,562)		(10,562)
TOTAL OTHER FINANCING SOURCES (USES)	43,038	10,562	53,600
NET CHANGE IN FUND BALANCES	(17,654)	19	(17,635)
Fund balances at beginning of year	185,033		185,033
FUND BALANCES AT END OF YEAR	\$ 167,379	\$ 19	\$ 167,398

See notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

Year Ended June 30, 2004

Net change in fund balances--governmental funds	\$ (17,635)
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Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities, the costs of those assets is
allocated over their estimated useful lives as depreciation expense.

Depreciation expense	\$ (16,398)	
Capital outlay	<u>53,600</u>	37,202

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 19,567</u></u>
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See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the AuTrain-Onota Public School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. The more significant policies established in GAAP and used by the District are discussed below:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Some of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 1. A management's discussion and analysis (MD&A) section, which provides an analysis of the District's overall financial position and results of operations; and
 2. Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has elected to implement the provisions of the Statement in the current year.

Reporting Entity

The District was organized and incorporated under the laws of the State of Michigan to provide educational programs to its residents. A Board of Education is elected by the public to oversee and control the operations of the District.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight

NOTES TO FINANCIAL STATEMENTS--Continued

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

responsibilities include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, the financial statements of the AuTrain-Onota Public School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the District nor is the District a component unit of another entity.

Basic Financial Statements--Government-Wide Financial Statements

The District's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's instruction, support, and community services are classified as governmental activities. The District does not have any business-type activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported as either invested in capital assets, net of related debt, restricted, or unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants directly associated with the function.

The government-wide focus emphasizes the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basic Financial Statements--Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The following fund types are utilized by the district:

Governmental Funds: The focus of the Governmental Funds' measurement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

General Fund: The General Fund is the primary operating fund and, accordingly, it is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds: The Special Revenue Fund is used to account for financial resources that provide hot lunch services.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the government combined) for the determination of major funds.

Basis of Accounting

The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Government activities in government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; that is, when both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest on general obligation debt, if any, is recognized when due.

NOTES TO FINANCIAL STATEMENTS--Continued

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Financial Statement Amounts

Cash and Cash Equivalents: The District has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits with an initial maturity of three months or less.

Inventory: Inventory in the School Service Fund consists of expendable food and supplies held for consumption. The inventory, valued at the lower of cost (first-in, first-out) or market, is recorded as an expenditure at the time individual inventory items are used.

Capital Assets: Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets, if any, are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Buildings	50 years
Land improvements	20 years
Machinery & Equipment--Buses	8 years

General capital assets are those that result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Government-Wide Statement of Net Assets, but are reported in the Fund Financial Statements as capital outlay expenditures.

Accrued Liabilities and Long-Term Obligations: Payables and accrued liabilities that will be paid from governmental funds are reported on governmental fund financial statements regardless of whether they will be liquidated with current financial resources. The non-current portion of compensated absences, that will be paid from governmental funds are reported as a liability in fund financial statements only to the extent that they will be paid with current, expendable, available financial resources (generally, within sixty days of year-end). Bonds and other non-current liabilities that will be paid from governmental funds are not recognized as a liability in fund financial statements until due.

Deferred Revenue: The District reports deferred revenue when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period, or when resources are received by the District before it has a legal claim to them, such as when grant money is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulation.

Interfund Activity: Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures/expenses. Reimbursement occurs when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the Government-Wide Financial Statements.

Accounts Payable: Amounts due for expenses incurred but not paid as of June 30 are recorded as accounts payable on the balance sheet.

Employee Compensation and Related Liabilities: Payroll and related withholdings, which have been earned by District employees but not paid as of June 30, are recorded as a liability on the District's balance sheet.

Substantially all of the District's employees participate in the Michigan Public School Employees' Retirement System. Additional post-employment benefits are provided by the Michigan Public Schools Employees' Retirement System.

Fund Balance: The unreserved fund balances represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources." The designated fund balances represent tentative plans for future use of financial resources.

State Revenue: The State of Michigan uses a foundation grant approach that provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on a weighted average of pupil membership counts taken in February 2004 and September 2003.

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The state levies an education property tax millage of 6.00 mills (on both homestead and non-homestead property) to fund a portion of the foundation, with the remaining amount earmarked from sales and other taxes. The local portion of the foundation is funded by property taxes levied at a rate of up to 18 mills on non-homestead property. The state revenue is recognized during the foundation period and is funded through payments from October through August.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Tax Revenues: Property taxes levied on June 30 are based on the assessed value of property within the District. Various Townships bill and collect the property taxes for the District. Property taxes are recognized when they are levied because they are considered to be both measurable and available. Proper allowances are made for estimated uncollectible accounts and delinquent accounts.

Accumulated Sick Leave: The District allows administrative personnel, teachers, and support staff to accumulate sick leave. Upon termination employees with ten or more years of service have the option of receiving one month's current pay or their accumulated sick leave at the current substitute teacher rate.

Budgets and the Budgetary Process: The District follows the budgetary process prescribed by provisions of the State of Michigan Uniform Budgeting and Accounting Act, which entails the preparation of budgetary documents within an established timetable. All funds are legally required to be budgeted and appropriated with the exception of fiduciary funds. The legal level of budgetary control has been established at the functional level with modifications made only by a resolution of the Board. At the close of each year, budget appropriations lapse.

NOTES TO FINANCIAL STATEMENTS--Continued

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE B--CASH AND INVESTMENTS

Cash and cash equivalents and investments included in the basic financial statements as of June 30, 2004, consist of the following:

	<u>Cash & Cash Equivalents</u>
Cash in savings accounts	<u>\$ 216,841</u>
TOTAL CASH DEPOSITS	216,841
Cash on hand	<u> </u>
TOTAL	<u><u>\$ 216,841</u></u>
Government-Wide Financial Statements:	
Cash and cash equivalents	<u>\$ 216,841</u>
TOTAL	<u><u>\$ 216,841</u></u>

All accounts are registered in the name of the reporting entity and recorded at cost. Interest is recorded when earned and credited to the applicable account.

The total cash deposits held in financial institutions at June 30, 2004, is \$175,197, of which \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) under Regulation Number 330.8. The remaining balance of \$75,197 was uninsured and uncollateralized. This regulation, in summary, provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 for both demand deposits and time deposits in every financial institution, that is not a branch location, that is a member of the FDIC.

Statutory Authority

Act 196, PA 1997, authorizes the District to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.

NOTES TO FINANCIAL STATEMENTS--Continued

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE B--CASH AND INVESTMENTS --Continued

3. Commercial paper rated at time of purchase within the two highest classifications established by, not less than two, standard rating services and that matures not more than 270 days after the date of purchase.
4. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
5. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
6. Commercial paper rated at time of purchase within the two highest classifications established by, not less than two, standard rating services and that matures not more than 270 days after the date of purchase.
7. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
8. Bankers' acceptances of United States banks.
9. Obligations of the State of Michigan or any of its political subdivisions, that at the time of purchase, are rated as investment grade by not less than one standard rating service.
10. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

NOTE C--CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Adjustments	Balance June 30, 2004
Non-depreciated capital assets:					
Land	\$ 1,365			\$ (1,365)	\$ 0
Capital assets:					
Land improvements	10,700				10,700
Building	378,255				378,255
Vehicles -- Buses	47,324	\$ 53,600			100,924
Subtotal	<u>\$ 436,279</u>	<u>\$ 53,600</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 489,879</u>
TOTAL CAPITAL ASSETS	<u>\$ 437,644</u>	<u>\$ 53,600</u>	<u>\$ 0</u>	<u>\$ (1,365)</u>	<u>\$ 489,879</u>

NOTES TO FINANCIAL STATEMENTS--Continued

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE C--CAPITAL ASSETS--Continued

	Balance July 1, 2003	Additions	Deletions	Adjustments	Balance June 30, 2004
Accumulated depreciation:					
Land improvements	\$ 9,898	\$ 535			\$ 10,433
Building	203,395	6,598			209,993
Vehicles--Buses	38,451	9,265			47,716
Subtotal	<u>\$ 251,744</u>	<u>\$ 16,398</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 268,142</u>
NET CAPITAL ASSETS	<u>\$ 185,900</u>	<u>\$ 37,202</u>	<u>\$ 0</u>	<u>\$ (1,365)</u>	<u>\$ 221,737</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Supporting services	\$ 9,265
Unallocated	<u>7,133</u>

TOTAL DEPRECIATION EXPENSE \$ 16,398

NOTE D--DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2004:

Library revenue	\$ 660
Excellence in Education	766
MAYF summer and fall recreation	3,544
Miscellaneous	<u>2,098</u>
TOTAL DEFERRED REVENUE	<u>\$ 7,068</u>

NOTE E--TRANSFERS

Amounts transferred to and from various individual funds for the year ended June 30, 2004, are as follows:

Fund	Transfers to Other Funds	Fund	Transfers From Other Funds
General	<u>\$ 10,562</u>	Food Service	<u>\$ 10,562</u>
	<u>\$ 10,562</u>		<u>\$ 10,562</u>

NOTES TO FINANCIAL STATEMENTS--Continued

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE F--MICHIGAN UNIFORM BUDGETING AND ACCOUNTING ACT

The District's budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) and the budget, as presented, has been amended.

NOTE G--LONG TERM DEBT

A summary of the changes in long-term debt for the year ended June 30, 2004, is as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Long-term debt:				
Compensated absences	\$ 5,121	\$ 202		\$ 5,323
Installment loan payable		53,600	\$ 14,027	39,573
TOTAL	<u>\$ 5,121</u>	<u>\$ 53,802</u>	<u>\$ 14,027</u>	<u>\$ 44,896</u>

A schedule of the District's remaining installment loan repayment requirements are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 12,702	\$ 1,504	\$ 14,206
2006	13,185	1,021	14,206
2007	13,686	520	14,206
TOTALS	<u>\$ 39,573</u>	<u>\$ 3,045</u>	<u>\$ 42,618</u>

NOTE H--EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor, and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. The annual report may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, P.O. Box 30673, Lansing, Michigan 48909-8103, or by calling (517) 322-5103.

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE H--EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN--Continued

The District is required by state statute to contribute 12.99 percent of covered payroll from July 1, 2003 to June 30, 2004. Contributions to MPSERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members, including the District, are established and may be amended only by state statute. The District's contributions to MPSERS for the years ending June 30, 2004, 2003, and 2002, were \$38,593, \$37,811, and \$34,127, respectively. Retirement contributions payable at June 30, 2004, 2003, and 2002, of \$3,378, \$3,178, and \$3,653, were remitted shortly after year-end.

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9 percent of gross wages.

The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9 percent. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Basic Plan members make no contributions. Contributions collected and remitted by the District on behalf of MIP members for the year ending June 30, 2004, 2003, and 2002, were \$7,782, \$8,229, and \$12,250, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

In addition to the pension benefits, MPSERS provides comprehensive group medical, hearing, dental, and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

NOTE I--RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for its liability and excess liability coverage. The District's liability insurance coverage is limited to \$1,000,000 per occurrence with a maximum of \$3,000,000 for all claims. The District also maintains excess liability coverage of \$1,000,000 per occurrence with a maximum aggregate of \$1,000,000.

Management is unaware of any pending or threatened claims that would not be covered by their policy that are material to the financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

NOTE J--PROPERTY TAXES

The taxable value of real and personal property, which represents approximately 50 percent of the estimated current value, located in the District for the 2004 tax year, totaled \$14,373,543 for homestead and \$25,033,829 for non-homestead. The tax levy of \$450,609 for the year was based on a rate of 18.00 mills on non-homestead property (one mill is equal to \$1.00 per \$1,000 of taxable value) and is remitted to the District's General Fund by the taxing unit.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL--GENERAL FUND

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 450,285	\$ 498,507	\$ 497,934	\$ (573)
State sources	15,000	37,215	37,215	0
Federal sources	8,503	38,090	38,458	368
Other sources		1,572	1,572	0
TOTAL REVENUES	473,788	575,384	575,179	(205)
EXPENDITURES				
Current:				
Instruction	304,977	293,399	293,378	21
Supporting services	225,802	278,138	335,313	(57,175)
Community service direction	7,568	7,434	7,180	254
TOTAL EXPENDITURES	538,347	578,971	635,871	(56,900)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(64,559)	(3,587)	(60,692)	(57,105)
OTHER FINANCING SOURCES (USES)				
Proceeds from borrowing			53,600	53,600
Transfer to other funds (net)	(13,150)	(10,562)	(10,562)	0
TOTAL OTHER FINANCING SOURCES (USES)	(13,150)	(10,562)	43,038	53,600
NET CHANGE IN FUND BALANCE	(77,709)	(14,149)	(17,654)	(3,505)
Fund balance at beginning of year	185,033	185,033	185,033	0
FUND BALANCE AT END OF YEAR	\$ 107,324	\$ 170,884	\$ 167,379	\$ (3,505)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL--SPECIAL REVENUE--FOOD SERVICE FUND

AUTRAIN-ONOTA PUBLIC SCHOOL DISTRICT

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 4,250	\$ 4,013	\$ 4,013	\$ 0
State sources	1,200	1,860	1,860	0
Federal sources	10,250	11,754	11,420	(334)
TOTAL REVENUES	15,700	17,627	17,293	(334)
EXPENDITURES				
Food service	28,850	28,189	27,836	(353)
TOTAL EXPENDITURES	28,850	28,189	27,836	(353)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,150)	(10,562)	(10,543)	19
OTHER FINANCING SOURCES (USES)				
Transfer to other funds (net)	13,150	10,562	10,562	0
TOTAL OTHER FINANCING SOURCES (USES)	13,150	10,562	10,562	0
NET CHANGE IN FUND BALANCE	0	0	19	19
Fund balance at beginning of year	0	0	0	0
FUND BALANCE AT END OF YEAR	\$ 0	\$ 0	\$ 19	\$ 19

OTHER INFORMATION



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
AuTrain-Onota Public School District
Deerton, Michigan

We have audited the financial statements of AuTrain-Onota Public School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether AuTrain-Onota Public School District's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered AuTrain-Onota Public School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition, in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Board of Education
AuTrain-Onota Public School District

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Makela, Toutant, Hill & Nardi, P.C.

September 22, 2004